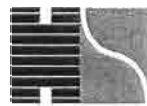


FINANCIAL REPORT  
BEAVER ISLAND COMMUNITY SCHOOL  
June 30, 2007

**BEAVER ISLAND COMMUNITY SCHOOL  
FINANCIAL REPORT  
Year Ended June 30, 2007**

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**Hill • Schroderus & Co., LLP**

Certified Public Accountants & Consultants

August 29, 2007

Independent Auditors' Report

Superintendent and  
Board of Education  
Beaver Island Community School  
Beaver Island, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Beaver Island Community School, as of and for the year ended June 30, 2007, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Beaver Island Community School, as of June 30, 2007, and the respective changes in financial position, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 29, 2007, on our consideration of Beaver Island Community School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant, agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Beaver Island Community School  
Beaver Island, Michigan

The management's discussion and analysis and the budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Beaver Island Community School's basic financial statements. The accompanying other supplemental information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Hill, Schroderus & Co.*

CERTIFIED PUBLIC ACCOUNTANTS  
Petoskey, Michigan



Beaver Island Community School  
37895 Kings Highway  
Beaver Island MI 49782  
phone (231) 448-2744  
fax (231) 448-2919

## Management's Discussion and Analysis

### Overview of the Basic Financial Statements

Beaver Island Community School's, (the "School's") basic financial statements include government-wide statements, fund financial statements and notes to the financial statements. This report also contains required and other supplemental information in addition to the basic financial statements.

### Government-wide Financial Statements

The government-wide financial statements report information on all of the School's nonfiduciary funds. The government-wide statements are designed to provide readers with a broad overview of the School's finances, in a manner similar to a private-sector business.

The Statement of Net Assets displays all of the School's assets and liabilities, with the difference reported as net assets. All long-term assets and debt obligations are presented.

The Statement of Activities focuses on the gross and net cost of the various functions within the School (instruction, support services, etc.), which are supported by the School's general revenues (property taxes, unrestricted state aid, etc.).

### Fund Financial Statements

The fund financial statements report on the governmental funds, with an emphasis on major funds. Major funds are determined by the level of activity within the various funds. The focus of the fund financial statements is on the sources and uses of funds during the current year.

The fiduciary fund is also presented; separate from the governmental funds, due to the fact that these assets do not represent assets of the School. These assets are not presented as part of the Government-wide financial statements.

Beaver Island Community School maintains five individual governmental funds. Information is presented separately in the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances for the general fund, which is considered a major fund.

### Board of Education Members

Barb Schwartzfisher, President; Dawn Marsh, Vice President; Sharon Nix, Treasurer;  
Nancy Tritsch, Secretary; Trustees: Brian Cole, Tina Drost, Gail Weede

### Superintendent/Principal

Kathleen McNamara  
kittym@beaverisland.k12.mi.us

Data from the other four governmental funds are combined into a single, nonmajor governmental funds column. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements in the Other Supplemental Information section of the report.

## Notes to the Financial Statements

The notes provide additional information which is essential to a full understanding of the data provided in the government-wide and fund financial statements.

## Government-wide Financial Analysis

The table below summarizes the District's net assets as of June 30, 2007:

<b>Beaver Island Community School's Net Assets</b>		
<b>June 30, 2007 and 2006</b>		
	<u>2007</u>	<u>2006</u>
<b>Assets</b>		
Current and other assets	\$ 387,743	\$ 287,677
Capital assets - net of accum. dep.	<u>1,147,440</u>	<u>1,139,010</u>
Total assets	<u>1,535,183</u>	<u>1,426,687</u>
<b>Liabilities</b>		
Current liabilities	161,058	330,070
Noncurrent liabilities	<u>-</u>	<u>-</u>
Total liabilities	<u>161,058</u>	<u>330,070</u>
<b>Net Assets</b>		
Investment in capital assets, net of related debt	1,147,440	986,280
Restricted	57,414	9,920
Unrestricted	<u>169,271</u>	<u>100,417</u>
Total net assets	<u>\$ 1,374,125</u>	<u>\$ 1,096,617</u>

At the end of the fiscal year, Beaver Island Community School is able to report positive balances in all three categories of net assets. The largest portion of the School's net assets is its investment in capital assets (land, construction in progress, buildings, equipment and vehicles); less any related debt used to acquire those assets that are still outstanding. The School uses these capital assets in providing educational services; consequently, these assets are not available for future spending.

The second portion of net assets, restricted net assets, represents resources that are subject to external restrictions on how they may be used. This would include restrictions for debt service and capital projects expenses.

The remaining portion of net assets, unrestricted net assets, may be used at the School's discretion to meet ongoing obligations.

The results for the School as a whole are reported in the Statement of Activities, which is summarized below:

**Beaver Island Community School's Change in Net Assets  
Years Ended June 30, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
<b>Revenue</b>		
Program revenue:		
Charges for services	\$ 4,240	\$ 4,194
Grants and contributions	251,558	243,414
General revenue:		
Property taxes	1,463,505	1,344,275
State aid, unrestricted	135,953	115,607
Interest and investment earnings	10,890	8,251
Other	44,213	23,037
<b>Total revenues</b>	<u>1,910,359</u>	<u>1,738,778</u>
<b>Function/Program Expenses</b>		
Instruction	900,716	840,711
Support services	621,079	646,821
Food services	24,631	24,221
Athletics	35,100	24,652
Community services	1,911	-
Interest/fees on long-term debt	7,567	16,436
Depreciation (unallocated)	41,847	35,978
<b>Total expenses</b>	<u>1,632,851</u>	<u>1,588,819</u>
<b>Change in net assets</b>	277,508	149,959
<b>Net assets - beginning of year</b>	<u>1,096,617</u>	<u>946,658</u>
<b>Net assets - end of year</b>	<u><u>\$ 1,374,125</u></u>	<u><u>\$ 1,096,617</u></u>

As reported above, the School recorded \$1,632,851 of expenses. The majority of the School's activities were funded by property taxes, grants and contributions. The state approved funding last year for "Isolated Districts" which represents over 80% of the district's state aid.

The School experienced an increase in net assets of \$277,508. In the fund financial statements debt and capital outlay payments represent expenditures of available spendable resources, however in the government wide statements as noted above they are not current expenses. Depreciation is used to ratably expense these over the estimated time to be benefited. That is why the fund financial statements indicate a \$104,510 surplus and the government wide statements indicate an increase in net assets of \$277,508.

## Fund Financial Analysis

As of year-end, the governmental funds reported a combined fund balance of approximately \$234,185, which is \$104,510 more than the beginning of the year. The increase was due primarily to unspent revenue in the Capital Projects Fund of nearly \$44,000 and General Fund revenues exceeding expense by \$57,000.

## General Fund Budgetary Highlights

Final budgeted revenues were up from the original budgeted revenues. It reflected more local revenue and state revenue. This was due, to the fact there was no state aid bill at adoption, nor had board of review changes been completed for property tax values. Final budgeted expenditures were also higher than originally budgeted and reflected a budget more in accordance with the state mandated chart of accounts.

Final actual revenues were within 2% of final budgeted amounts. Final actual expenditures were within 0.3% of the original budgeted amounts.

## Capital Assets

At June 30, 2007 the School had \$1,672,982 invested in capital assets. The following table summarizes the capital asset activity for the year:

**Beaver Island Community Schools Capital Asset Activity**  
**Year Ended June 30, 2007**

	July 1, 2006	Additions	Disposals	June 30, 2007
Land and improvements	\$ 92,228	\$ -	\$ -	\$ 92,228
Construction in progress	-	13,768	-	13,768
Buildings and improvements	1,501,454	15,081	-	1,516,535
Vehicles	17,522	-	-	17,522
Equipment	11,500	21,429	-	32,929
Total capital assets	1,622,704	50,278	-	1,672,982
Less accum. depreciation	(483,694)	(41,847)	-	(525,541)
Net capital assets	\$ 1,139,010	\$ 8,431	\$ -	\$ 1,147,441

The majority of the capital assets additions pertained to sinking fund expenditures, including general building improvements.



## Debt Outstanding

### Beaver Island Community Schools' Debt Activity Year Ended June 30, 2007

	<u>July 1, 2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2007</u>
Bonds payable	\$ 135,000	\$ -	\$ 135,000	\$ -
Land contract	17,730	-	17,730	-
Early retirement incentives	17,966	7,500	17,966	7,500
	<u>\$ 170,696</u>	<u>\$ 7,500</u>	<u>\$ 170,696</u>	<u>\$ 7,500</u>

## Economic Factors

While the population of Beaver Island is growing faster than the state, the school enrollment is not growing. The island's population is older than the state average with 55% of the island's population 45 and older. The median income of parents with children is significantly lower than the state average with most families reporting in the low and middle income groups. Most of the children in the district have two parents who work and most parents work in jobs that do not require post secondary education. (Based on summary of work by Bettie Landaue-Menchik, Director, Data Services Unit, K-12 Outreach, MSU).

The district recognizes that the student population is showing a downward trend and that economic development which supports jobs that do require post secondary education is essential to the continued vitality of the district. If current economic and population trends continue, student enrollment will fall below 70.

A 3.95 million school bond issue was passed in August of 2007 with a building project to be completed by fall of 2009. It is hoped that an improved facility will encourage younger families to remain on the island or relocate to the island.

## Financial Contact

The School's financial statements are designed to present users with a general overview of the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed towards the Business Office, Beaver Island Community School.

BEAVER ISLAND COMMUNITY SCHOOL  
Statement of Net Assets  
June 30, 2007

<u>Assets</u>	<u>Governmental Activities</u>
<b>Current Assets</b>	
Cash	\$ 333,996
Due from other governmental units	32,551
Due from Fiduciary Fund	11,789
Prepaid expenses	9,407
Total current assets	<u>387,743</u>
<b>Noncurrent Assets</b>	
Capital assets	1,672,982
Less: accumulated depreciation	<u>(525,542)</u>
Total noncurrent assets	<u>1,147,440</u>
Total assets	<u><u>\$ 1,535,183</u></u>
 <b><u>Liabilities and Net Assets</u></b>	
<b>Current Liabilities</b>	
Accounts payable	\$ 11,869
Payroll deductions and withholdings	924
Accrued expenses	44,437
Accrued interest payable	-
Salaries payable	78,828
Deferred revenue	17,500
Noncurrent liabilities, due within one year	<u>7,500</u>
Total current liabilities	161,058
<b>Noncurrent Liabilities, Net of Current Portion</b>	
Early retirement incentives	<u>-</u>
Total liabilities	<u>161,058</u>
<b>Net Assets</b>	
Investment in capital assets, net of related debt	1,147,440
Restricted for debt service	7,925
Restricted for capital projects	49,489
Unrestricted	<u>169,271</u>
Total net assets	<u>1,374,125</u>
Total liabilities and net assets	<u><u>\$ 1,535,183</u></u>

**BEAVER ISLAND COMMUNITY SCHOOL**  
**Statement of Activities**  
**Year Ended June 30, 2007**

Functions/Programs	Expenses	Program Revenues		Net Revenue (Expense) and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Governmental Activities
<b>Governmental Activities:</b>				
Instruction	\$ 900,716	\$ -	\$ 89,348	\$ (811,368)
Support services	621,079	-	138,687	(482,392)
Athletics	35,100	-	9,000	(26,100)
Food services	24,631	4,240	14,523	(5,868)
Community services	1,911	-	-	(1,911)
Interest/fees on long-term debt	7,567	-	-	(7,567)
Depreciation (unallocated)	41,847	-	-	(41,847)
<b>Total governmental activities</b>	<b>\$ 1,632,851</b>	<b>\$ 4,240</b>	<b>\$ 251,558</b>	<b>(1,377,053)</b>
 <b>General revenues:</b>				
<b>Taxes:</b>				
Property taxes, levied for general purposes				1,227,194
Property taxes, levied for debt services				146,625
Property taxes, levied for capital expenditures				89,686
State aid, unrestricted				135,953
Interest and investment earnings				10,890
Other				44,213
<b>Total general revenues</b>				<b>1,654,561</b>
<b>Change in net assets</b>				<b>277,508</b>
<b>Net assets - beginning of year</b>				<b>1,096,617</b>
<b>Net assets - end of year</b>				<b>\$ 1,374,125</b>

BEAVER ISLAND COMMUNITY SCHOOL  
Governmental Funds  
Balance Sheet  
June 30, 2007

<u>Assets</u>	<u>General</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total</u>
Cash	\$ 226,368	\$ 107,628	\$ 333,996
Due from other funds	53,750	-	53,750
Due from other governmental units	29,812	2,739	32,551
Prepaid expenses	9,407	-	9,407
	<hr/>	<hr/>	<hr/>
Total assets	<u>\$ 319,337</u>	<u>\$ 110,367</u>	<u>\$ 429,704</u>
 <u>Liabilities and Fund Balances</u>			
Liabilities:			
Accounts payable	\$ 1,064	\$ 10,805	\$ 11,869
Due to other funds	-	41,961	41,961
Payroll deductions and withholdings	924	-	924
Accrued expenses	44,437	-	44,437
Salaries payable	78,828	-	78,828
Deferred revenue	17,500	-	17,500
	<hr/>	<hr/>	<hr/>
Total liabilities	<u>142,753</u>	<u>52,766</u>	<u>195,519</u>
Fund Balances:			
Reserved for prepaid expenses	9,407	-	9,407
Reserved for debt service	-	7,925	7,925
Reserved for capital improvements	-	49,489	49,489
Unreserved:			
Undesignated	167,177	187	167,364
	<hr/>	<hr/>	<hr/>
Total fund balances	<u>176,584</u>	<u>57,601</u>	<u>234,185</u>
	<hr/>	<hr/>	<hr/>
Total liabilities and fund balances	<u>\$ 319,337</u>	<u>\$ 110,367</u>	<u>\$ 429,704</u>

BEAVER ISLAND COMMUNITY SCHOOL  
Governmental Funds  
Reconciliation of Balance Sheet of Governmental Funds to Net Assets  
June 30, 2007

Total Fund Balances - Governmental Funds	\$ 234,185
Amounts reported for governmental activities in the statement of net assets are different because:	
-	
Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds balance sheet	
Cost of capital assets	1,672,982
Accumulated depreciation	(525,542)
Early retirement incentives	<u>(7,500)</u>
Total net assets - governmental activities	<u>\$ 1,374,125</u>

**BEAVER ISLAND COMMUNITY SCHOOL**  
**Governmental Funds**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Year Ended June 30, 2007**

	General	Other Nonmajor Governmental Funds	Total
<b>Revenues</b>			
Local sources	\$ 1,280,597	\$ 251,252	\$ 1,531,849
State sources	161,832	2,172	164,004
Federal sources	26,398	12,351	38,749
Interdistrict and other sources	175,758	-	175,758
	<u>1,644,585</u>	<u>265,775</u>	<u>1,910,360</u>
<b>Total revenues</b>			
	<u>1,644,585</u>	<u>265,775</u>	<u>1,910,360</u>
<b>Expenditures</b>			
Current:			
Instruction	911,182	-	911,182
Support services	621,079	-	621,079
Athletics	-	35,100	35,100
Food service	-	24,631	24,631
Community services	1,911	-	1,911
Debt service:			
Principal	-	152,730	152,730
Interest	-	8,235	8,235
Other	-	704	704
Capital outlay	21,429	28,849	50,278
	<u>1,555,601</u>	<u>250,249</u>	<u>1,805,850</u>
<b>Total expenditures</b>			
	<u>1,555,601</u>	<u>250,249</u>	<u>1,805,850</u>
Excess (deficiency) of revenues over expenditures	<u>88,984</u>	<u>15,526</u>	<u>104,510</u>
<b>Other financing sources (uses)</b>			
Operating transfers in	-	31,968	31,968
Operating transfers out	(31,968)	-	(31,968)
	<u>(31,968)</u>	<u>31,968</u>	<u>-</u>
<b>Total other financing sources (uses)</b>			
	<u>(31,968)</u>	<u>31,968</u>	<u>-</u>
<b>Net change in fund balances</b>	57,016	47,494	104,510
<b>Fund balances - beginning of year</b>	<u>119,568</u>	<u>10,107</u>	<u>129,675</u>
<b>Fund balances - end of year</b>	<u>\$ 176,584</u>	<u>\$ 57,601</u>	<u>\$ 234,185</u>

BEAVER ISLAND COMMUNITY SCHOOL  
Governmental Funds  
Reconciliation of the Statement of Revenues, Expenditures  
and Changes in Fund Balances of Governmental Funds  
to the Statement of Activities  
Year Ended June 30, 2007

Net Change in Fund Balances - Total Governmental Funds	\$ 104,510
--	------------

Amounts reported for governmental activities in the statement of net assets are different because:

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense:

Capital outlay	50,278
Depreciation expense	(41,847)

Repayment of long-term debt is an expenditure in the governmental funds, but the repayments reduce long-term liabilities in the statement of net assets:

Bonds	135,000
Land contract	17,730
Early retirement incentives	17,966

In the statement of activities, early retirement incentives are measured by the amounts earned during the year. In the governmental funds, expenditures for these items are measured by the amount actually paid.

(7,500)

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.

1,371

Change in net assets - governmental activities

\$ 277,508

BEAVER ISLAND COMMUNITY SCHOOL  
Fiduciary Fund  
Statement of Fiduciary Net Assets  
June 30, 2007

	Student Activities Agency Fund
<b>Assets</b>	
Cash	\$ 26,436
<b>Liabilities</b>	
Due to general fund	\$ 11,789
Due to student groups	14,647
	\$ 26,436



**BEAVER ISLAND COMMUNITY SCHOOL**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2007**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Beaver Island Community School (the "School District") operates under a Board-Superintendent form of government and provides education services to its residents. The accounting policies of the School District conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant policies used by the School District:

**Reporting Entity**

The accompanying financial statements have been prepared in accordance with criteria established by Governmental Accounting Standards Board Statement (GASBS) No. 14 (and amended by GASBS No. 39). GASBS 14 states the primary basis for determining whether outside agencies and organizations should be considered component units of the School District and included in the School District's financial statements is financial accountability. Financial accountability has been defined as follows: A primary government has substantive authority to appoint a voting majority of the component unit's board; the primary government is either able to impose its will on a component unit or there is a potential for the component unit to provide specific financial burdens on the primary government; and the component unit is fiscally dependent on the primary government. The School District has no component units.

**Basic Financial Statements – Overview**

The School District's basic financial statements include both government-wide (reporting the School District as a whole) and fund financial statements (reporting the School District's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the School District's activities are considered governmental activities.

**Basic Financial Statements – Government-Wide Statements**

The government-wide financial statements report information on all of the nonfiduciary activities of the primary government. These statements are reported using the economic resources measurement focus and the full accrual basis of accounting. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. The government-wide focus is more on operational efficiency, the sustainability of the School District as an entity and the change in the School District's net assets resulting from the current year's activities.

In the government-wide Statement of Net Assets, the governmental activities column is presented on a consolidated basis. Due to the full accrual, economic resource basis, all long-term assets and receivables, as well as long-term debt and obligations are recognized. The School District's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The School District first utilizes restricted resources to finance qualifying activities.

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**Basic Financial Statements – Government-Wide Statements - Continued**

The government-wide Statement of Activities, due to the full accrual, economic resource basis, records revenue when it is earned and expenses when a liability is incurred, regardless of the timing of related cash flows. The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers who purchase, use or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, unrestricted State Aid and other items not properly included among program revenues are reported as general revenue. Any net costs, by function, are allocated to the general revenue.

**Basic Financial Statements – Fund Financial Statements**

The financial transactions of the School District are reported in individual funds in the fund financial statements. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures. The emphasis in the fund financial statements is on the major funds in the governmental activities category. GASBS No. 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures of the governmental funds) for the determination of major funds. The School District's major fund, as described below, is the General Fund. Non-major funds by category are summarized into a single column.

The governmental funds financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded in the accounting period in which they become both available and measurable. Revenues are available when received within the current period or within 60 days after year end. Expenditures are recorded in the accounting period in which the liability is incurred. The exception to this general rule is principal and interest on general obligation long-term debt, if any, is recognized when due.

The focus of the fund financial statements is upon the determination of financial position and changes in financial position (sources, uses, and balances of financial resources).

Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the financial statements in this report, into generic fund types and broad fund categories as follows:

**Governmental Funds**

Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use and balances of the School District's expendable financial resources and the related current liabilities are accounted for through governmental funds.

**General Fund** – The General Fund is used to record the general operations of the School District pertaining to education and those operations not provided for in other funds. The General Fund is a major fund of the School District.

## NOTES TO FINANCIAL STATEMENT - CONTINUED

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

#### Basic Financial Statements – Fund Financial Statements - Continued

##### Governmental Funds - Continued

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes.

School Service Funds – The School Service Funds are used to segregate, for administrative purposes, the transactions of a particular activity from regular revenue and expenditure accounts. The School District maintains full control of these funds. The School Service Funds maintained by the School District are the Cafeteria and Athletic Fund.

Debt Service Funds – The Debt Retirement Funds are used to record tax and interest revenue and the payment of interest, principal and other expenditures on long-term bonded debt. The Debt Service Funds maintained by the School District is the General Obligation Fund.

Capital Project Funds – The Capital Project Funds are used to record bond proceeds, tax revenues, or other revenue, and the disbursement of monies specifically designated for acquiring new school sites, buildings, equipment, and for major remodeling and repairs. These funds are kept open until the purpose for which they were created has been accomplished. The Capital Project Fund maintained by the School District is the Sinking Fund. The Sinking Fund was approved by the voters for a period of five years, fiscal 2003 through 2007 to levy an amount not to exceed 1 mill on all property for constructing, remodeling and repairing school buildings and developing and improving sites. For this fund, the School District has complied with the applicable provision of §1212 (1) of the Revised School Code and the applicable section of the Revised Bulletin for School District Audits of Bonded Construction Funds and of Sinking Funds in Michigan.

##### Fiduciary Funds

Fiduciary Funds are used to account for assets held by the School District in a trustee or agency capacity for others and therefore are not available to support School District programs. Since these funds cannot be used to address activities or obligations of the School District, these funds are not incorporated into the government-wide statements. Fiduciary fund statements are reported using the economic resources measurement focus and the accrual basis of accounting. The following agency fund is presented in the Statement of Fiduciary Net Assets:

Student Activities Agency Fund – The School District presently maintains a Student Activities Agency Fund to record the transactions of student groups for school and school-related purposes. The funds are segregated and held by the School District for the students.

##### Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, demand deposits and other accounts that have the general characteristics of demand deposits.

## NOTES TO FINANCIAL STATEMENT - CONTINUED

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

#### Capital Assets

Capital assets, which include land, buildings, equipment and vehicles, are reported in the Statement of Net Assets in the government-wide financial statements. Capital assets are defined by the School District as assets that are purchased or acquired with an original cost of \$5,000 or more and an estimated useful life in excess of one year. Such assets are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date donated. Additions, improvements and other capital outlay that significantly extend the useful life of an asset, or increase its capacity or efficiency, are capitalized. Other costs incurred for repairs and maintenance is expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings and improvements	20-50 years
Furniture and other equipment	5-15 years
Vehicles	7 years

#### Comparative Data

Comparative total data for the prior year is not included in the School District's financial statements.

### NOTE 2: BUDGETING/COMPLIANCE

The School District is required under Public Act 621 to adopt a budget for the General and Special Revenue Funds. Annual budgets are adopted on a basis consistent with generally accepted accounting principles and State law for these funds. State law requires the School District to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits districts to amend their budgets during the year. All annual appropriations lapse at year-end.

The presentation of budgetary information is required for the General Fund and all major Special Revenue Funds. (The School District does not have any major Special Revenue Funds). In the required supplemental information section, the School District's actual and budgeted expenditures for the General Fund are presented.

### NOTE 3: CASH

#### Cash Deposits

State statutes and the School District's investment policy authorize the School District to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have an office in Michigan; the School District is allowed to invest in U.S. Treasury or Agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The School District's deposits are in accordance with statutory authority.

## NOTES TO FINANCIAL STATEMENT - CONTINUED

### NOTE 3: CASH – CONTINUED

#### Cash Deposits – Continued

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District does not have a deposit policy for custodial credit risk. At year-end, the carrying amount of the School District's deposits for both governmental activities and fiduciary funds was \$360,432 and the bank balance was \$393,857. Of the bank balance, \$200,000 was covered by federal depository insurance. The remaining \$193,857 was uninsured and uncollateralized. State statutes prohibit security in the form of collateral, surety bonds or another form be taken for the deposit of public funds.

### NOTE 4: PROPERTY TAXES

Property taxes are levied and become a lien on property as of December 1 on the State taxable valuation of property in the School District as of the preceding December 31.

Property taxes are recognized as revenue in the fiscal year they are levied. The Michigan School Accounting Manual requires property taxes receivable be written off in the current year if not received within 60 days of the end of the previous year. This applies to both the government-wide (full accrual) and the fund (modified accrual) financial statements. There is no significant departure from the full accrual basis of accounting using this method.

The 2006 State taxable valuation of non-homestead property as of June 20, 2007 for Beaver Island Community School totaled \$77,890,916, on which taxes levied consisted of 15.7908 mills for operating purposes. The total taxable valuation of the School District was \$100,705,531, on which taxes levied consisted of 1.460 mills for debt retirement and 0.8918 mill for Sinking Fund expenditures. These amounts are recognized in the respective General, Debt Service and Capital Project funds.

Classification of assessed property between homestead vs. non-homestead is subject to change. In addition, Michigan Tax Tribunal and Board of Review changes throughout the year affect the total taxable valuation.

**NOTES TO FINANCIAL STATEMENT - CONTINUED**

**NOTE 5: CAPITAL ASSETS**

Capital asset activity for the School District's governmental activities was as follows:

	<u>Balance July 1, 2006</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance June 30, 2007</u>
Assets not being depreciated:				
Land and improvements	\$ 92,228	\$ -	\$ -	\$ 92,228
Construction in progress	<u>-</u>	<u>13,768</u>	<u>-</u>	<u>13,768</u>
Subtotal	<u>92,228</u>	<u>13,768</u>	<u>-</u>	<u>105,996</u>
Capital assets being depreciated:				
Buildings and improvements	1,501,454	15,081	-	1,516,535
Vehicles	17,522	-	-	17,522
Equipment	11,500	21,429	-	32,929
Accumulated depreciation:				
Buildings and improvements	<u>(483,694)</u>	<u>(41,847)</u>	<u>-</u>	<u>(525,541)</u>
Net capital assets being depreciated	<u>1,046,782</u>	<u>(5,337)</u>	<u>-</u>	<u>1,041,445</u>
Governmental activities net capital assets	<u>\$ 1,139,010</u>	<u>\$ 8,431</u>	<u>\$ -</u>	<u>\$ 1,147,441</u>
Governmental activities depreciation expense was charged as follows:				
Unallocated	<u>\$ 41,847</u>			

**NOTE 6: CONSTRUCTION COMMITMENTS**

The school district has active construction projects at year-end. The projects include:

	<u>Project Estimates</u>	<u>Expended to June 30, 2007</u>	<u>Committed</u>
Door and window	\$ 18,510	\$ 10,380	\$ 8,130
School addition and renovation	<u>4,112,493</u>	<u>3,388</u>	<u>-</u>
	<u>\$ 4,131,003</u>	<u>\$ 13,768</u>	<u>\$ 8,130</u>

See the subsequent events footnote for future funding of the school addition and renovation project.

**NOTES TO FINANCIAL STATEMENT - CONTINUED**

**NOTE 7: INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

The interfund balances within the school district are as follows:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$ 53,750	\$ -
Cafeteria Fund	-	3,487
Debt Service Fund	-	3,210
Capital Project	-	35,264
Fiduciary Fund	-	11,789
	<u>\$ 53,750</u>	<u>\$ 53,750</u>

The interfund balances are for other fund expenses paid from the general fund and the result of \$25,000 being deposited into the Capital Project Fund rather than the General Fund in error.

Interfund transfers consist of the following:

The General Fund made transfers in the amounts of \$5,868 to the Cafeteria Fund and \$26,100 to the Athletic Fund. The General Fund makes transfers on a yearly basis to support these funds.

**NOTE 8: DEFERRED REVENUE**

Deferred revenue in the government-wide and the fund financial statements consists of categorical and other grant monies received but not yet earned at year end. Deferred revenue in the fund financial statements also consists of monies that are not considered both available and measurable. Deferred revenues for the year ended June 30, 2007 are comprised of the following:

<u>Grant</u>	<u>Unearned</u>	<u>Unavailable</u>
Summer School	\$ 2,000	\$ 2,000
Playground equipment	15,500	15,500
	<u>\$ 17,500</u>	<u>\$ 17,500</u>

**NOTE 9: SHORT-TERM DEBT – STATE AID NOTES**

The School issues Tax Anticipation notes in advance of property tax receipts, depositing the proceeds in the General Fund. This note was necessary because property tax payments were not received before December of the school year.

Short-term debt activity for the year ended June 30, 2007, excluding interest expense of \$8,030 was as follows:

	<u>Beginning Balance</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Ending Balance</u>
Tax Anticipation Note	\$ -	\$ 400,000	\$ 400,000	\$ -

## NOTES TO FINANCIAL STATEMENT - CONTINUED

### NOTE 10: LONG-TERM DEBT

The following is a summary of the School District's governmental activities long-term debt transactions for the year ended June 30, 2007:

	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year
Bonds and notes payable:					
General obligation debt	\$ 135,000	\$ -	\$ 135,000	\$ -	\$ -
Other liabilities:					
Land contract note	17,730	-	17,730	-	-
Early retirement incentives	17,966	7,500	17,966	7,500	7,500
Total governmental activities long-term liabilities	<u>\$ 170,696</u>	<u>\$ 7,500</u>	<u>\$ 170,696</u>	<u>\$ 7,500</u>	<u>\$ 7,500</u>

Long-term debt payable at June 30, 2007, is comprised of the following individual instruments:

Retirement agreement due in an annual installment of \$7,500 on January 31, 2008.	<u>\$ 7,500</u>
Total governmental activities general obligation debt	<u>\$ 7,500</u>

### NOTE 11: DEFINED BENEFIT PENSION PLAN AND POST EMPLOYMENT BENEFITS

The Beaver Island Community School contributes to the Michigan Public School Employees Retirement System (MPERS), a cost sharing, multiple employers, state wide public employee retirement plan governed by the State of Michigan and created in 1915. MPERS was established by the State of Michigan for purposes of providing retirement, survivor and disability benefits to the State's public school employees. MPERS now operates under the provisions of Public Act 300 of 1980, as amended. MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, 7150 Harris Drive, P.O. Box 30026, Lansing, MI 48909-7526 or by calling (517) 322-6278.

Prior to January 1, 1990, MPERS provided a choice of two retirement plans, the Basic Plan, which required no employee contribution and the Member Investment Plan (MIP). For members hired on January 1, 1990 or after, membership in MIP is mandatory. MIP members are required to contribute 3 to 4.3 percent of their annual covered salary and Beaver Island Community School is required to contribute at an actuarially determined rate. The current rate is 17.74% of annual covered payroll, of which approximately 6.55% is for other post employment benefits (see below). The contribution requirements of plan members and Beaver Island Community School are established and may be amended by the MPERS Board.

The School District's contribution to MPERS for the years ending June 30, 2007, 2006 and 2005 were \$132,565, \$119,812 and \$105,995 respectively, equal to the required contributions for each year.



## NOTES TO FINANCIAL STATEMENT - CONTINUED

### NOTE 11: DEFINED BENEFIT PENSION PLAN AND POST EMPLOYMENT BENEFITS – CONTINUED

#### Other post employment benefits

Also under the MPSERS Act, all retirees have the option of continuing health, dental and vision coverage which are funded on a cash disbursement basis. Retirees having these coverages contribute an amount approximately equivalent to the monthly cost for Part B Medicare and 10% of the monthly premium amount for health, dental and vision coverages.

The number of plan participants and other relevant financial information consisted of the following at June 30, 2006, the date of the latest actuarial valuation.

Eligible retired participants	157,163
Participants receiving benefits:	
Health	119,462
Dental/Vision	126,828
Expenses for the year	\$694,313,906
Payroll contribution rate	6.55%

### NOTE 12: RESERVES AND DESIGNATIONS OF FUND BALANCES

#### Major Governmental Funds

General Fund – The General Fund's reserved fund balance includes amounts for prepaid expenses.

#### Nonmajor Governmental Funds

Capital Project Fund – The Capital Project Fund has a reserved fund balance for the acquisition and/or construction of major capital assets.

Debt Service Fund – The Debt Service Fund's reserved fund balance represents resources legally restricted for the payment of principal and interest amounts maturing in future years.

### NOTE 13: RISK MANAGEMENT

The School District carries commercial insurance for risks of loss, including property and employee health insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The School District also belongs to the SEG Self-Insured Workers' Disability Compensation Fund, a public entity risk pool currently operating as a common risk management and workers' compensation insurance program for various school districts throughout the state. The School District pays an annual premium for its workers' compensation insurance coverage. The pool is self-sustaining through member premiums and reinsures through commercial companies for claims in excess of \$500,000 for each insured event. Although the School District could be assessed charges beyond the annual premium, the likelihood of receiving such an assessment is minimal.

## NOTES TO FINANCIAL STATEMENT - CONTINUED

### NOTE 14: SUBSEQUENT EVENTS

The voters approved a bonding proposal in the amount of \$3,950,000 for the purpose of erecting, furnishing and equipping an addition to, and partially remodeling, furnishing and refurbishing, equipping and re-equipping the Beaver Island Community School; acquiring, installing and equipping technology for the addition and the Beaver Island Community School; constructing, equipping and relocating a playground and play field; and developing and improving the site.

REQUIRED SUPPLEMENTAL INFORMATION

**BEAVER ISLAND COMMUNITY SCHOOL**  
**Required Supplementary Information**  
**Budgetary Comparison Schedule**  
**General Fund**  
**Year Ended June 30, 2007**

	Original Budget	Final Budget	Actual	Variance with Final Budget Over/(Under)
<b>Revenues</b>				
Local sources	\$ 1,199,540	\$ 1,287,940	\$ 1,280,597	\$ (7,343)
State sources	139,500	161,903	161,832	(71)
Federal sources	24,500	23,255	26,398	3,143
Interdistrict and other sources	177,374	201,358	175,758	(25,600)
	<u>1,540,914</u>	<u>1,674,456</u>	<u>1,644,585</u>	<u>(29,871)</u>
<b>Total revenues</b>	<u>1,540,914</u>	<u>1,674,456</u>	<u>1,644,585</u>	<u>(29,871)</u>
<b>Expenditures</b>				
Current:				
Instruction:				
Basic programs	711,091	835,120	795,603	(39,517)
Added needs	122,773	120,333	115,579	(4,754)
Support services:				
Pupil	100,028	59,245	52,042	(7,203)
General administration	19,000	19,000	16,687	(2,313)
School administration	267,584	247,026	247,799	773
Business services	44,200	40,176	41,398	1,222
Operation and maintenance	218,038	228,605	201,609	(26,996)
Other support services	47,203	64,292	61,544	(2,748)
Community services	-	13,611	1,911	(11,700)
Capital outlay	21,429	21,429	21,429	-
	<u>1,551,346</u>	<u>1,648,837</u>	<u>1,555,601</u>	<u>(93,236)</u>
<b>Total expenditures</b>	<u>1,551,346</u>	<u>1,648,837</u>	<u>1,555,601</u>	<u>(93,236)</u>
Excess (deficiency) of revenues over expenditures	(10,432)	25,619	88,984	63,365
<b>Other financing sources (uses)</b>				
Operating transfers out	(29,000)	(42,669)	(31,968)	(10,701)
<b>Net change in fund balance</b>	(39,432)	(17,050)	57,016	74,066
<b>Fund balance - beginning of year</b>	119,568	119,568	119,568	-
<b>Fund balance - end of year</b>	<u>\$ 80,136</u>	<u>\$ 102,518</u>	<u>\$ 176,584</u>	<u>\$ 74,066</u>

## OTHER SUPPLEMENTAL INFORMATION

BEAVER ISLAND COMMUNITY SCHOOL  
Other Supplemental Information  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2007

	Special Revenue Funds		Debt Service Fund	Capital Project Fund	Total
	Cafeteria	Athletic	General Obligation		
<b><u>Assets</u></b>					
Cash	\$ 1,361	\$ -	\$ 11,135	\$ 95,132	\$ 107,628
Due from other governmental units	2,739	-	-	-	2,739
Total assets	<u>\$ 4,100</u>	<u>\$ -</u>	<u>\$ 11,135</u>	<u>\$ 95,132</u>	<u>\$ 110,367</u>
<b><u>Liabilities and Fund Balance</u></b>					
Liabilities:					
Accounts payable	\$ 426	\$ -	\$ -	\$ 10,379	10,805
Due to other funds	3,487	-	3,210	35,264	41,961
Total liabilities	<u>3,913</u>	<u>-</u>	<u>3,210</u>	<u>45,643</u>	<u>52,766</u>
Fund Balances:					
Reserved for debt service	-	-	7,925	-	7,925
Reserved for capital improvements	-	-	-	49,489	49,489
Unreserved:					
Undesignated	187	-	-	-	187
Total fund balances	<u>187</u>	<u>-</u>	<u>7,925</u>	<u>49,489</u>	<u>57,601</u>
Total liabilities and fund balances	<u>\$ 4,100</u>	<u>\$ -</u>	<u>\$ 11,135</u>	<u>\$ 95,132</u>	<u>\$ 110,367</u>

BEAVER ISLAND COMMUNITY SCHOOL  
Other Supplemental Information  
Combining Statement of Revenues, Expenditures and Changes in Fund Balances  
Nonmajor Governmental Funds  
Year Ended June 30, 2007

	Special Revenue Funds		Debt Service Fund	Capital Project Fund	Total
	Cafeteria	Athletic	General Obligation		
<b>Revenues</b>					
Local sources	\$ 4,240	\$ 9,000	\$ 147,595	\$ 90,417	\$ 251,252
State sources	2,172	-	-	-	2,172
Federal sources	12,351	-	-	-	12,351
<b>Total revenues</b>	<b>18,763</b>	<b>9,000</b>	<b>147,595</b>	<b>90,417</b>	<b>265,775</b>
<b>Expenditures</b>					
Current:					
Athletic	-	35,100	-	-	35,100
Food service	24,631	-	-	-	24,631
Debt service:					
Principal	-	-	135,000	17,730	152,730
Interest	-	-	8,235	-	8,235
Other	-	-	693	11	704
Capital outlay	-	-	-	28,849	28,849
<b>Total expenditures</b>	<b>24,631</b>	<b>35,100</b>	<b>143,928</b>	<b>46,590</b>	<b>250,249</b>
Excess (deficiency) of revenues over expenditures	(5,868)	(26,100)	3,667	43,827	15,526
<b>Other financing sources (uses)</b>					
Operating transfers in	5,868	26,100	-	-	31,968
<b>Total other financing sources (uses)</b>	<b>5,868</b>	<b>26,100</b>	<b>-</b>	<b>-</b>	<b>31,968</b>
<b>Net change in fund balances</b>	<b>-</b>	<b>-</b>	<b>3,667</b>	<b>43,827</b>	<b>47,494</b>
<b>Fund balances - beginning of year</b>	<b>187</b>	<b>-</b>	<b>4,258</b>	<b>5,662</b>	<b>10,107</b>
<b>Fund balances - end of year</b>	<b>\$ 187</b>	<b>\$ -</b>	<b>\$ 7,925</b>	<b>\$ 49,489</b>	<b>\$ 57,601</b>

BEAVER ISLAND COMMUNITY SCHOOL  
Other Supplemental Information  
Statement of Receipts and Disbursements  
Fiduciary Fund  
Year Ended June 30, 2007

	Balance June 30, 2006	2006-2007		Balance June 30, 2007
		Receipts	Disbursements	
Youth Consortium	\$ 11,968	\$ 14,140	\$ 15,902	\$ 10,206
Islander Booster Club	4,282	13,159	13,782	3,659
Board Account	(1,063)	210	106	(959)
Gullahorn Scholarship	4,450	-	1,750	2,700
5th/6th Grade	3,205	6,771	7,335	2,641
7th/8th Grade	(3,499)	4,804	8,539	(7,234)
Junior Class	4,931	721	5,030	622
Senior Class	-	4,419	2,885	1,534
Lockwood Memorial	940	-	-	940
SADD	228	-	-	228
National Honor Society	-	58	57	1
Student Council	364	246	538	72
Schoolyard Garden Fund	600	-	-	600
Yearbook	-	1,835	2,198	(363)
	<u>\$ 26,406</u>	<u>\$ 46,363</u>	<u>\$ 58,122</u>	<u>\$ 14,647</u>
Total	\$ 26,406	\$ 46,363	\$ 58,122	\$ 14,647



INTERNAL CONTROL, COMPLIANCE AND OTHER MATTERS



August 29, 2007

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS

Superintendent and Board of Education  
Beaver Island Community School  
Beaver Island, Michigan

We have audited the general purpose financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Beaver Island Community School as of and for the year ended June 30, 2007 which collectively comprise Beaver Island Community School's basic financial statements and have issued our report thereon dated August 29, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Beaver Island Community School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Beaver Island Community School's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify and deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and other matters

As part of obtaining reasonable assurance about whether Beaver Island Community School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the management and Board of Education and is not intended to be and should not be used by anyone other than these specified parties.

*Hill, Schroeder & Co.*

CERTIFIED PUBLIC ACCOUNTANTS  
Petoskey, Michigan

NO DATA COLLECTION FORM IS REQUIRED TO BE ISSUED TO THE BEAVER ISLAND COMMUNITY SCHOOL FOR THE YEAR ENDED JUNE 30, 2007.

NO MANAGEMENT LETTER WAS ISSUED TO THE BEAVER ISLAND COMMUNITY SCHOOL FOR THE YEAR ENDED JUNE 30, 2007.